

Message Text

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FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 7169

C O N F I D E N T I A L SECTION 1 OF 2 BUENOS AIRES 6113

E.O. 11652: GDS

TAGS: EFIN, EINV, EAIR, AR

SUBJECT: ECON MINISTER MARTINEZ DE HOZ ON AVIATION, FINANCE, AND
US INVESTMENT PROBLEMS

1. SUMMARY: DURING MY CONVERSATION ON AUGUST 16 WITH
MINISTER MARTINEZ DE HOZ, PORTIONS OF WHICH HAVE BEEN
REPORTED SEPTELS, WE ALSO TOUCHED UPON AEROLINEAS'
ACQUISITION OF A BOEING 747, BRANIFF'S APPLICATION FOR
A NINTH US/BA FREQUENCY AND ON US FIRMS' INVESTMENT
PROBLEMS IN ARGENTINA. END SUMMARY

2. BOEING 747 FINANCING.

I ASKED THE MINISTER WHAT HIS VIEWS REALLY WERE ON
EXIM-BANK FINANCING FOR THE AEROLINEAS 747. THERE APPEARED
TO HAVE BEEN SOME MISUNDERSTANDING AT FIRST AS TO THE
STATUS OF THE EARLIER ARRANGEMENT WITH EXIM. ALSO
WITH THE MANY PROJECTS WHICH ARGENTINA HAD PENDING FOR
WHICH EXIM FINANCING WAS HOPED, IT HAD BEEN SOMETHING OF
A SURPRISE TO FIND THE GOA PRESSING SO HARD FOR THE
AIRCRAFT LOAN. MARTINEZ DE HOZ WAS EVIDENTLY NOT AT ALL
PLEASED OVER THE WAY MATTERS HAD DEVELOPED. HE SAID IT
WAS HIS AND THE GOA'S OFFICIAL POSITION THAT FOR COMPETITIVE
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REASONS AEROLINEAS NEEDED THE AIRCRAFT AND THE

FINANCING HAD A TOP PRIORITY. THREE OR FOUR FOREIGN AIRLINES WERE ALREADY FLYING WIDE BODY TRANSPORTS TO BUENOS AIRES, AND IT WAS NECESSARY FOR AA TO KEEP ITS POSITION. I EXPRESSED SURPRISE THAT HE HAD NOT MENTIONED THE 747 FINANCING DURING HIS VISIT TO EXIMBANK IN JUNE. ON THAT OCCASION, MARTINEZ DE HOZ SAID, HE HAD NOT ATTEMPTED TO REVIEW IN DETAIL EACH OF ARGENTINA'S FINANCING REQUIREMENTS. FURTHERMORE, HE HAD THOUGHT, AND CONTINUES TO THINK, THAT EXIM HAD SOME OBLIGATION TO SUPPORT THE PURCHASE. AT LEAST, HE BELIEVED, THE 747 FINANCING SHOULD BE OVER AND ABOVE THE \$50 MILLION AMOUNT WHICH EXIM HAD IN MIND FOR POSSIBLE NEW FINANCING AT THIS TIME. I NOTED THAT, IF THIS WERE THE CASE, THE GOA HAD FAILED, FOR A NUMBER OF MONTHS, TO FOLLOW UP ON THE ORIGINAL APPLICATION IN 1975. IN VIEW OF THESE PROBLEMS, I ASKED, HAD THE GOA AND AEROLINEAS SERIOUSLY CONSIDERED THE ALTERNATIVE SUGGESTION OF LEASING THE 747 FOR A PERIOD UNTIL ARRANGEMENTS FOR A PURCHASE COULD BE MADE? TO MY SURPRISE, THE MINISTER APPARENTLY WAS NOT FAMILIAR WITH THIS IDEA. HE THOUGHT LEASING MIGHT BE A GOOD WAY OUT OF THE DILEMMA AND SAID HE WOULD LOOK INTO IT.

3. BRANIFF'S NINTH FREQUENCY.

HAD THE MINISTER, I ASKED, HAD A CHANCE TO REVIEW BRANIFF'S APPEAL ON THE NINTH FREQUENCY, AND DID HE THINK IT SHOULD BE APPROVED? MARTINEZ DE HOZ SAID THIS WOULD BE DIFFICULT. THE US SHOULD REMEMBER THAT THE US CARRIERS ALREADY HAD 16 FREQUENCIES A WEEK AND MORE WOULD BE HARD ON AEROLINEAS. I POINTED OUT THAT AA NEVERTHELESS HAD THE BEST COMBINATION OF ROUTES AND SCHEDULES AND WAS AT NO DISADVANTAGE. THE MINISTER INSISTED, HOWEVER, THAT HE COULD NOT RECOMMEND APPROVAL OF A NINTH FREQUENCY FOR BRANIFF UNTIL THE "CAB WAS READY TO STRAIGHTEN OUT THIS MESS" WHICH ARGENTINA AND THE US HAVE HAD FOR SO LONG IN CIVIL AVIATION, AND FURTHER GOA/USG TALKS TOOK PLACE. HE DID NOT THINK, HE CONCLUDED, THAT MUCH COULD BE ACCOMPLISHED UNTIL AA GOT ITS 747 INTO SERVICE.

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4. US FIRMS INVESTMENT PROBLEMS.

I EXPRESSED MY APPRECIATION, AS WELL AS USG'S FOR SETTLEMENT OF ITT/STANDARD ELECTRIC CASE, AND NOTED THAT THE MINISTER HAD BEEN AS GOOD AS HIS WORD WHEN HE SAID LAST APRIL HE WOULD RESOLVE INVESTMENT CASES. MARTINEZ DE HOZ STRESSED THAT GOA WANTED CSEA

TO STAY, BUT BUREAUCRATIC PROBLEMS HAD BEEN UNBELIEVABLE. ARGENTINA NEEDS FOREIGN CAPITAL AND HIS PROGRAM WILL FAIL IF NEW INVESTMENT NOT FORTHCOMING IN REASONABLE TIME. EVEN MORE CRITICAL IN LONGER RUN WOULD BE RETURN OF ARGENTINA FLIGHT CAPITAL WHICH NOW ABROAD. I TOOK OCCASION REMIND HIM THAT FOREIGN CAPITAL WOULD REMAIN LUKEWARM SO LONG AS KILLINGS, BOTH ON RIGHT AND LEFT, REPORTED DAILY FROM ARGENTINA.

5. DELTEC.

I INQUIRED REGARDING DELTEC. THE MINISTER SAID THAT PATIENCE WAS NEEDED ON THIS ONE. HE TRUSTED WE WOULD HAVE CONFIDENCE IN HIS ASSURANCES. NEVERTHELESS, SOME PROGRESS WAS UNDERWAY. A NEW TRUSTEE, WHO HE SELECTED AND IN WHOM HE HAD CONFIDENCE, HAD BEEN APPOINTED (BUENOS AIRES 4867) AND FAVORABLE DEVELOPMENTS COULD BE EXPECTED. HE URGED THE EMBASSY TO TALK WITH DELTEC REPRESENTATIVES FOR FURTHER INFORMATION -- HE DOES NOT, RPT NOT WANT JOHN CONNELLY TO COME TO ARGENTINA.

6. EXXON--THE OIL COMPANIES.

THINGS WERE NOT GOING VERY SATISFACTORILY, MARTINEZ DE HOZ SAID, AND HE WAS ALSO DISAPPOINTED AT THE RESPONSE OF THE PETROLEUM FIRMS TO THE GOA'S NEW INVESTMENT PROPOSALS. I TOLD HIM I HAD JUST HEARD LONG ACCOUNT OF SHORTCOMINGS OF INVESTMENT PROPOSALS FROM TOP US OIL OFFICIAL WITH WHOM HE WAS PERSONALLY ACQUAINTED, AND WOULD THE MINISTER WISH TO HEAR THIS OFFICIAL? THE MINISTER ASKED INSTEAD THAT THE US COMPANY OFFICIAL SEE SECRETARY OF ENERGY ZUBARAN, IN WHOM HE, THE MINISTER, HAD FULL CONFIDENCE.
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(EMBASSY IS SEEKING ARRANGE MEETING.)

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INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

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R 201930Z SEP 76

FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 7170

C O N F I D E N T I A L SECTION 2 OF 2 BUENOS AIRES 6113

TURNING AGAIN TO PROBLEMS OF EXXON AND OTHERS, MARTINEZ DE HOZ SAID THAT FURTHER TALKS WERE NEEDED. YPF, HE SAID, WAS ONE OF WORST RUN GOA STATE ENTITIES, INEFFICIENT AND ALSO LOADED WITH NATIONALISTS. FOR THIS REASON THE PRIVATE FOREIGN OIL COMPANIES MUST RPT MUST BE PERSUADED TO TAKE BACK THE OPERATION OF THE RETAIL GAS STATIONS. HE COULD NOT, RPT NOT LET YPF OPERATE THEM. THESE THINGS WILL HAVE TO BE WORKED OUT, THE MINISTER SAID, BUT WE WANT EXXON AND THE OTHERS TO STAY AND WE NEED THEM.

7. CHASE MANHATTAN; OTHER BANKS.

TO MY INQUIRY, MARTINEZ DE HOZ REPLIED EMPHATICALLY THAT HE AND OTHERS HERE FOUND IT OFFENSIVE THAT THE BANKS WERE CONSTANTLY "WAVING THE SOVEREIGN IMMUNITY CLAUSE." THIS WOULD HAVE TO BE WORKED OUT, HE SAID, SINCE HE WOULD NOT GIVE IN, AND HE WAS SENDING CHRISTIAN ZIMMERMAN (CENTRAL BANK VICE PRESIDENT) TO THE US TO DISCUSS THE MATTER. WILLIAM OGDEN OF CHASE MANHATTAN WAS ALSO ATTEMPTING TO SETTLE THE DIFFICULTY WITH OTHER BANKS. I DID NOT PURSUE THE "SOVEREIGN IMMUNITY CLAUSE" FURTHER BECAUSE NEITHER CHASE MANHATTAN NOR THE OTHER BANKS CONCERNED HAVE MENTIONED THIS PROBLEM TO ME OR MY STAFF. WE WILL INVESTIGATE
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AND FIND OUT WHAT IS AT ISSUE AND WHETHER THE EMBASSY OR THE DEPT CAN ASSIST IN CLEARING IT UP. I GATHERED THAT THIS WAS THE CHIEF AND PERHAPS THE ONLY SUBSTANTIVE OBSTACLE REMAINING TO AGREEMENT BETWEEN THE BANKS AND THE ADMISORY COMMISSION.

8. WE WILL SUBMIT FURTHER REPORTS THIS WEEK ON THE STATUS OF THE INVESTMENT PROBLEMS.

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